

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES FOR)
EDWIN R. MONTGOMERY, RODNEY E.)
LEE, JAMES PATTERSON, (A PART-)
NERSHIP) D/B/A LEEMONT ACRES)
SUBDIVISION SECTION 6, SANITARY)
SEWER SERVICE IN JEFFERSON)
COUNTY, KENTUCKY)

CASE NO. 8363

O R D E R

On October 9, 1981, Leemont Acres Subdivision, Section 6, Sanitary Sewer Service, ("Leemont Acres") filed its application with the Commission for authority to increase its rate charged for monthly sewer service. Leemont Acres proposed a rate of \$19.56 per month or an increase of 108 percent over the previous rate of \$9.40. The proposed rate would produce an increase in revenues of \$24,969 above the test period level of \$18,924.

In order to determine the reasonableness of the request, a hearing was held on December 17, 1981, with the Attorney General's Division of Consumer Protection, the only party to intervene in this matter, being present. All information requested in the case has been filed timely, and the record is now submitted for final determination by the Commission.

TEST PERIOD

Leemont Acres proposed and the Commission has accepted the 12-month period ending July 31, 1981, as the test period in this case.

REVENUES AND EXPENSES

Leemont Acres proposed several pro forma adjustments to its income statement in order to reflect current operating conditions. The Commission has accepted these adjustments with the following exceptions:

Electricity Expense - Leemont Acres proposed to increase this expense by \$2,689 above the test period level of \$4,211 to reflect the increased rates charged by Louisville Gas and Electric Company ("LG&E") effective in October 1980 and January 1982. Based upon the percentage increases granted to LG&E of 17.6 percent in October 1980 and 9.25 percent in January 1982, as applied to Leemont Acres' test period electric usage, the Commission has increased the test period expense by \$525 or a reduction in Leemont Acres' adjustment of \$2,273.

Chlorine and Plant Supplies - Leemont Acres proposed to increase this expense by \$265 to reflect the expected increase in the price of chlorine during the next 3 years. The record includes a letter from Leemont Acres' service company, Andriot Davidson, dated November 4, 1981, which states that chlorine prices are not expected to change in the near future. Therefore, as the chlorine adjustment is neither known nor measurable, it has been disallowed.

Depreciation - Leemont Acres proposed to charge depreciation expense of \$5,005 annually to provide a reserve fund for the repair and/or replacement of major plant items. Based upon an analysis of Leemont Acres' tax returns and annual reports, the Commission has determined that the cost of the plant used and useful at this time was recovered in the sale of the lots. Leemont Acres is, therefore, not entitled to double recovery of any portion of contributed property. In this Order the Commission has granted Leemont Acres a rate sufficient to maintain its existing plant in good operating condition, to provide adequate cash flow to meet obligations and to provide income adequate to assure potential lenders that Leemont Acres is stable and credit-worthy. The Commission is, therefore, of the opinion that the adjustment is neither proper nor necessary and has disallowed the expense.

Income Taxes - Leemont Acres proposed an adjustment for state and federal income taxes. The Commission has disallowed this expense as a partnership pays no income taxes under the tax laws.

"Interest" Expense - Leemont Acres proposed to deduct \$2,000 as "interest" expense to recover losses from the preceding 5 years of operation. The adjustment was proposed to provide the owners incentive to continue to operate the plant rather than to sell it to a third party. There is no debt or obligation on which the partnership must pay interest. The Commission must fix rates for the future. We cannot fix rates retroactively to counteract management's failure to request timely rate increases. Therefore, the Commission has disallowed this expense.

Therefore, Leemont Acres' revenues and expenses have been adjusted as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 18,924	\$ -0-	\$ 18,924
Operating Expenses	<u>19,146</u>	<u>9,176</u>	<u>28,322</u>
Net Operating Income	<u>\$ (222)</u>	<u>\$ (9,176)</u>	<u>\$ (9,398)</u>

REVENUE REQUIREMENT

The Commission finds the net operating loss to be unjust, unfair and unreasonable. The Commission has used the operating ratio method as the basis in determining sewer rates in the past and has found it to be fair, just and reasonable to a utility's owners and its customers. The operating ratio method used by the Commission is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Operating Revenues}}$$

The Commission is of the opinion that an 88 percent ratio is fair, just and reasonable in that it will enable Leemont Acres to pay its operating expenses and provide a reasonable return to the owners. Therefore, the Commission finds that Leemont Acres is entitled to adjust its rate to produce revenues of \$32,184 1/ or an increase of \$13,890.

SUMMARY

The Commission after consideration of the evidence of record and being advised is of the opinion and finds that:

$$\underline{1/} \quad \frac{\$28,322}{.88} = \$32,184.$$

1) The rate proposed by Leemont Acres would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

2) The rate in Appendix A is the fair, just and reasonable rate to charge for sewer service and should be approved.

IT IS THEREFORE ORDERED that the rate proposed by Leemont Acres be and it hereby is denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rate in Appendix A is the fair, just and reasonable rate for Leemont Acres and is approved for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order, Leemont Acres shall file its revised tariff sheet setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 8th day of February, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth
Chairman

Katharine Randall
Vice Chairman

Jim Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8363 DATED
FEBRUARY 8, 1982

The following rate is prescribed for sewage disposal rendered to all customers served by Leemont Acres Subdivision Section 6, in Jefferson County, Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Applicable: Single-Family Residential lots

	<u>Monthly Charge</u>
<u>Rate:</u> Monthly Service Rate	\$14.34